

# **The global professional service firm: ‘one firm’ models versus (Italian) distant institutionalised practices**

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## **Abstract**

Through a historical case study of the internationalization of large English law firms in Italy, this paper uses Scott’s three pillars approach (2005) to look at how local institutions constrain and mediate the strategies and practices of professional services firms (PSFs). In doing so, it corrects the economic bias in the growing body of literature on the internationalization of PSFs by stressing how local regulations, norms and cultural frameworks affect the reproduction of home country practices, such as the one firm model pursued by large English law firms, in host-country jurisdictions. The paper also extends existing work on institutional duality (Kostova, 1999, Kostova and Roth, 2002) by developing a fine grained, micro level analysis which emphasizes the connections between institutions and practices. This is crucial, we contend, since the difficulties encountered by PSFs (and multinationals more generally) in their internationalization do not result from collisions between home- and host-country institutional

structures per se, but between the diverse practices generated by distant institutional environments.

**Keywords** Institutional Theory; Institutional Duality; Internationalization; One firm model; Professional Services Firms;

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## **Introduction**

The emergence of the global professional services firm (GPSFs) is perhaps one of the most significant changes of the past 20 years within the realm of professional work (Brock et al, 1999; Empson, 2007; Morgan and Quack, 2005; 2006). GPSFs are increasingly predicated on the notion of seamless worldwide service – i.e., the ability to offer a consistent and aligned ‘one stop shop’ to clients across multiple jurisdictions (Barratt et al, 2005; Boussebaa, 2009). This means pursuing a ‘one firm’ strategy based on integrated global profit pools and remuneration structures as well as on the re-organization of work processes around best practices usually derived from the firm’s home jurisdiction (Brock, 2006; Segal-Horn and Dean, 2009; Lowendahl, 2005). The rationale for developing ‘one firm’ strategies is intimately tied to the role of GPSFs, and global accounting and law firms in particular, in the contemporary economy. A significant and profitable portion of these firms’ work involves helping transnational clients to develop complex cross-border projects, structures and systems of production (Faulconbridge et al, 2008a); something which requires the seamless delivery of integrated advisory services across all the different jurisdictions in which transnational clients operate.

Yet, as the existing literature reveals, political and economic tensions within firms over the allocation of profits and resources makes the implementation of the ‘one firm’ strategy far from straightforward (Barratt et al, 2005; Boussebaa, 2009; Faulconbridge, 2008a; Morgan, 2009). Federated organizational models deployed by accountancy firms (Aharoni 1999, Barratt et al. 2005) and geographically fragmented ‘one firm’ strategies in law firms (Faulconbridge, 2008b) bear testament to the challenges faced. The aim of this paper is to further refine studies of the impediments to the ‘one firm’ strategy by developing an institutional analysis of GPSFs that

explains the centrality of institutions in determining the success and failure of attempts to implement their ‘one firm’ models. This we contend builds on existing work (Morgan and Quack, 2005; Barratt et al, 2005; Faulconbridge and Muzio, 2007; Faulconbridge et al, 2012; Kostova and Roth, 2002; Segal-Horn and Dean, 2009; Boussebaa, 2009; Boussebaa et al, 2012), and in particular on the growing body of work that connects institutional logics to practices (Greenwood et al, 2010; Lounsbury, 2007; Thornton et al, 2012), by offering a detailed in depth account of how the specific *practices* embodied in the ‘one firm’ model interact with local host-country institutions and their related practices to affect the success of internationalization strategies.

To further this agenda, this paper analyzes the history of English global law firms in Italy to reveal a number of core tensions between the ‘one firm’ model with its associated practices and the specificities of the Italian institutional context; this analysis exposing in detail the way the local operations of GPSFs experience high degrees of institutional duality (Kostova and Roth, 2002) as they are required to conform at the same time to local institutional pressures as well as to the expectations emanating from their headquarters and from their transnational clients. Theoretically, this analysis is important for two reasons. First, it overcomes the ‘economic’ bias which has characterized existing studies of GPSFs. It does this by using insights from neo-institutional theory (Scott, 2005; 2008) to extend the focus of analysis beyond discussions of the tensions between local and global economic interests tied to profitability and remuneration (Morgan and Quack, 2006; Boussebaa, 2009; Boussebaa et al, 2012) so as to recognize the importance of broader institutional factors which frame legitimate understandings of professional organization and practice in local contexts. Secondly, this paper makes a contribution to research

on institutional effects on multinational corporations (MNCs) more broadly by drilling down to the micro-foundations of local institutions and illustrating how these generate specific logics and practices that expose MNCs to conditions of institutional duality. Specifically, the paper shows that whilst existing work on MNCs (e.g., Kostova and Roth, 2002; Meyer et al, 2011; Whitley, 2001) has undoubtedly advanced our understanding of the way corporate strategies and best practices are impeded by local institutions, there is too great a tendency to present and analyze institutional effects at the macro (national institutional/business systems) or meso (institutional structure) scale level. Conversely, less attention has been paid to the micro-level - how institutions influence workplace practices and how such practice-level effects ultimately underpin the conflicts, frictions (Shenkar et al, 2008) and translation processes (Yanow, 2004) documented in the literature on MNCs. This paper thus contributes to the agenda set by recent calls (Greenwood et al, 2010; Lounsbury, 2008; Lounsbury et al, 2007; Thornton, 2004; Thornton et al, 2012) for more focus on micro scale processes by demonstrating how neo-institutional theory can be used to generate a practice-level analysis that explains the geographically specific and multi-dimensional barriers faced by MNCs in their internationalization processes (Morgan, 2001; Kristensen and Zeitlin, 2005).

The rest of the paper develops the theoretical perspective outlined above and presents the empirical case study over five sections. The next section reviews existing work on GPSFs. The discussion identifies how so far the literature in this area has neglected institutional influences on internationalization processes, and sets-out the value of a practice-level analysis of institutions for addressing this issue. We then proceed to describe our methods, before providing a detailed multi-staged case study of the history and varying fortunes of English law firms in Italy. In the

subsequent session we explain our findings using Richard Scott's (2005) influential concept of the three pillars of institutionalism (see also Micelotta, 2010, for an application of this framework to the legal profession), but in a way that uses this well-recognized neo-institutional framing to focus on the connections between institutions and practices. This draws attention to the key institutional differences between the Anglo-Saxon and Italian legal professions whilst, crucially, also documenting the micro-scale (practice-level) differences and tensions generated and encountered by English law firms as they tried to export their practices and recreate their work cultures in Italy. We conclude with a discussion of the theoretical implications raised by our case study and analysis and with some suggestions for further research.

### **Managing the global professional service firm**

Since the mid 1990s, a significant body of work has emerged on GPSFs (Aharoni, 1993; Brock et al, 1999; Faulconbridge et al, 2008a; b; Morgan and Quack, 2005; 2006; Rose and Hinings, 1999). Consequently, the economic logic of these firms is now well understood. But, less is known about the organization and management of such firms. In particular, the peculiarities of professional advice as a service and of professional services firms as organizations means that existing theories of MNCs, often based on research on manufacturing corporations, are in this context of limited value. The reasons for making such a claim are well documented. PSFs do not generate a tangible product which is consumed or utilized by clients, but generate intangible products in the form of knowledge-rich, time sensitive advice that is tailored to a specific client's needs (Brivot, 2011; Morris and Empson, 1998; Von Nordenflycht, 2010). This implies a much higher degree of context sensitivity than what applies to manufacturing activities and limits the

scope for the standardization and commoditization of products. Professional advice also displays a high level of local embeddedness. Professional services have to be organized, produced, distributed and traded in accordance with local regulations, and norms, as stipulated by national or regional professional associations (Abel, 1988; Krause, 1996). This leads to national varieties of professionalism (Faulconbridge and Muzio, 2007; Ramirez, 2001), whereby professional work is highly bound to the specificities of time and place. Finally, the structure of professional services firms themselves is rather unique (Raelin, 1985; Ackroyd and Muzio, 2007; Empson, 2007; Faulconbridge, 2008b; Faulconbridge and Muzio, 2008). Firms tend to be organized as partnerships where power is shared between autonomous professionals who retain significant amounts of discretion over how their work is organized. In this context management tends to be consensual if not collegial (Lazega, 2001) and mindful of individual preferences and local sensitivities. Such a governance structure contrasts with the hierarchies and bureaucracies often found in manufacturing corporations.

In this context, the organization of GPSFs has departed substantially from the model of the manufacturing MNC (Aharoni, 1999). An example is the loose federation of national partnerships connected by a global umbrella organization developed by accountancy firms (Ferner et al, 1995), in which local offices act as independent profit centres. Yet, more recently GPSFs have attempted to develop their own version of the integrated organizational forms typical of manufacturing. This involves the development of new structures and practices that allow competitive advantage to be gained by leveraging the assets and competences held by one branch throughout the firm's entire network (Beaverstock et al, 1999; Jones, 2005; Boussebaa, 2009), whilst offering multinational clients globally consistent quality standards and a seamless

service experience (Barratt et al, 2005; Empson, 2007; Segal-Horn and Dean, 2009). In this context professional firms have embarked on a journey from internationally fragmented to globally integrated organizations (Mayson, 2007).

At the heart of this transformation lies the ‘one firm’ model whereby local offices are designed to operate as part of an increasingly integrated and aligned organization with professionals across the world sharing a number of common practices and associated processes and values; these ensuring that the client’s experience of the firm’s services is the same across the entire global network (Segal-Horn and Dean, 2009). The key features of this ‘one firm’ model are summarized in Table 1.

[Table 1 about here]

The implementation of the ‘one firm’ model has, however, faced a diverse range of challenges. Some authors (Arnold, 2005) emphasize local resistance to processes of globalization and Americanization by national polities and professional associations. Others point to the economic tensions between global and local interests and how these interfere with the operation of ‘one firm’ strategies. Here, profit allocation and remuneration policies (Faulconbridge, 2008a; Faulconbridge and Muzio, 2007) act as particularly significant conflict lines. For instance Boussebaa (2009 and also Boussebaa et al, 2012) reveals how, due to economic considerations, ‘subunits strongly resisted importing foreign resources to work on local projects’ whilst also resisting ‘exporting their resources to offices overseas as this process, again, reduced local profitability’ (2009: 839-840). This, together with differentials in profitability and remuneration



levels between national offices (Morgan and Quack, 2006), somewhat compromises the ability of GPSF to construct effective cross-border teams which can be used to staff transnational client projects.

Whilst drawing attention to the significance of ‘internal market dynamics’ and economic tensions in the constitution and management of GPSFs (Boussebaa, 2009: 847) is an important contribution, there has been little focus in this literature on how broader institutional considerations affect and mediate the expansion and operation of GPSFs. One partial exception is Barratt et al. (2005) who in their seminal analysis of an international audit characterize the globalization of PSFs as a ‘disembedding process that involves not just the stretching of abstract systems (such as formal coordination mechanisms) across space but also their re-embedding in local contexts’ (2005: 20). In particular, differences in the technical and legal requirements governing a particular professional task such as auditing are shown to require that the worldwide practices of GPSFs are interpreted and reproduced in the context of local requirements and understandings

However, whilst Barratt et al.’s seminal contribution opens up the study of GPSFs to consideration of a broad set of institutional and cultural factors, there has so far been little systematic analysis of: the multiple and diverse ways that local institutions cause tensions between GPSFs’ home and overseas offices; of the different place-specific outcomes of ‘one firm’ strategies; and of the way institutional effects ultimately determine the strategic success or failure of GPSFs and their internationalization.

## **Institutions and local-global practice dynamics**

One particularly useful conceptual and analytical tool for dealing with the multi-dimensional affects of institutions on organizations is provided by Richard Scott's 'three pillars' framework (2005). The value of Scott's work emerges from his success in synthesizing ideas from economists, political scientists and sociologists to identify three analytically distinct but mutually reinforcing sources (pillars) of institutional pressure. The regulatory pillar comprises of laws and rules which are monitored and used coercively to govern behavior through legal sanctions for non-compliance. The normative pillar refers to the values and norms which govern social life in a specific context. Values relate to the desirable standards all should strive to achieve as part of day-to-day activities whilst norms relate to the means by which standards are achieved as part of individual and collective action. Thus the normative pillar comprises of social expectations in a given field which sanction through shame, guilt or dishonor the reproduction of legitimate forms of behavior. The cultural-cognitive pillar comprises of the conceptual frames, schema, and the taken for granted assumptions that individuals use to ascribe meaning to events and make sense of reality. In doing so it provides the internalized mental routines, shared repertoires and belief systems which frame a situation and help in the selection of a culturally legitimate course of action. As Scott (2005) notes, whilst each of the three pillars is analytically distinct in terms of its characteristics and effects, the three are also mutually reinforcing (thus for example cultural-cognitive frameworks produce particular norms and rules which in turn reproduce cognitive frames); something which explains the durability and pervasiveness of institutional effects.

Scott's three pillar approach is particularly valuable for the study of MNCs, including GPSFs, due to the extent to which it identifies and draws attention to the multiple sources and dimensions of institutional difference between place-specific fields. In doing so, it has the

potential to allow the development of a more subtle and holistic analysis of institutional heterogeneity and its impacts on the internationalization of MNCs. Accordingly, Scott's framework has exercised an important influence in the international business field (Boussebaa et al, 2012). Here, particularly noteworthy is the contribution of Kostova who relied on Scott's three pillar framework to develop her theory of institutional duality (Kostova, 1999, Kostova and Roth, 2002). According to Kostova's approach, the three pillars combine in different locations to produce a place specific 'institutional profile' which in turn frames the behavior of actors in that particular setting. This is relevant to MNCs due to their 'multiple embeddedness' (Meyer et al, 2011). These organizations are embedded in the institutions of the home-country they emerge from; thus, their organizational forms, governance structures and work practices, such as the 'one firm' model pursued by GPSFs, reflect the peculiar institutional profile of their country of origin. Simultaneously, MNCs are also embedded in the often institutionally different/distant host-countries they operate in. As Kostova (1999) and Kostova and Roth (2002) describe, this distance leads to a condition of institutional duality as the subsidiaries of MNCs are expected to conform with both the policies of their global headquarters and with the institutional pressures exercised by their local context. Accordingly, the institutional duality perspective explains why MNCs face considerable challenges when seeking to reproduce their home-country inflected models in host-countries with different regulations, norms, customs and understandings of business.

Thus, the institutional duality perspective makes an important contribution by developing the three pillars framework in a way that can support a systematic analysis of the institutional distance between home and host-country contexts. Yet, to date, its level of analysis and reliance

on a survey-based methodology has limited its ability to develop a fine-grained and multifaceted analysis of institutional heterogeneity and its effects on globalizing organizations at the level of practice; something which its grounding in Scott's (2005) three pillars should facilitate. Reflecting this point, several critiques of the institutional duality perspective exist; these most commonly noting the tendency to treat institutions as quantifiable variables which can be unproblematically aggregated into country-level scores of institutional heterogeneity (Boussebaa et al, 2012; Jackson and Deeg, 2008; Shenkar et al, 2008). In particular, this approach abstracts institutions from their historical and spatial context and obscures the complex patterns of interconnection, 'interdependence, complementarity and reinforcement' (Boussebaa et al, 2012: 468) that bind together the different dimensions (pillars) of institutions and determine their tangible impact on organizational practices. Paradoxically, then, given the original intention of Kostova (1999: 309) to develop an analysis of 'organizational practices as particular ways of conducting organizational functions that have evolved over time under the influence of an organization's history, people, interests, and actions', to date the institutional duality approach, by focusing on measurements of institutional distance and neglecting the practices which manifest and indeed carry institutional heterogeneity, has somewhat limited the traction that could be gained from using Scott's 3 pillar approach to study MNCs. Given the relationship between institutions and practices this is problematic (Ferner et al, 2005; Greenwood et al, 2010; Lounsbury, 2007; Thornton, 2004; Thornton et al, 2012). Institutions provide the logics that shape practices in a field – i.e., they set out the 'assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed' (Thornton, 2004: 70 cited in Greenwood et al, 2010: 521) whilst practices also in turn shape institutions. Accordingly, we contend that Scott's 3 pillar framework should be used to

develop a much more nuanced, in depth and qualitative analysis of the relationships between multi-dimensional institutions and situated practices. This would in turn capture the micro-processes through which institutional heterogeneity and local practice variation generate challenges for MNCs. Developing such an analysis is the task of the remainder of the paper.

## **Methodology**

Before describing the methods used, it is important to justify some of the key decisions made in designing the research reported here. The ‘one firm’ strategy was selected as the focus of analysis for two reasons. Firstly, because of its influence on the operations of contemporary GPSFs. In this sense, following Kostova’s (1999) terminology, the ‘one firm’ model can be considered as a bundle of strategic organizational practices. Secondly, due to its highly centralized and standardized approach, we expected it to generate pronounced institutional tensions when exported to host countries. English Law firms were chosen as an exemplary group of GPSFs because of their commitment, as opposed to accountancy firms or US based law firms, to the ‘one firm’ strategy (Jones, 2007). The operations of these firms in Italy were selected as a case study because of the documented high levels of institutional distance separating the English and the Italian legal professions and business systems more generally (Micelotta, 2010; Trigilia and Burrioni, 2009).

The empirical case study was developed using multiple data collection methods. First, we completed a series of archive searches of the European legal press (The Lawyer, Legal Week and Legal Business plus Italian legal publication Top Legal). Our analysis stretched from 2010

back to 1994 - the period when most international law firms began to build their presence in the Italian market. Entries containing the word 'Italy' were searched for and then manually reviewed to select any articles reporting on the Italian legal market and in particular on the operations of English law firms in Italy. This allowed an archive of over 140 news items to be assembled, including reports, editorials and opinion pieces. This database was augmented with country reports on the Italian market produced by the Chambers Legal Directory and by an analysis of press releases by The Association of Large Law Firms (ASLA) in Italy. Articles were analyzed chronologically to identify key themes and trends with particular attention paid to corroborating stories across different media sources. This allowed us to build a two stage history of English law firms in Italy, detailing their entry and expansion strategies, structures, operations and broader activities, as well as the specific difficulties they experienced.

Archival data was then integrated and enriched with 49 semi-structured interviews with respondents working for English law firms in Italy and with other key stakeholder (professional associations, universities and law schools, the specialist press and management consultants). 27 of these were part of larger project funded by the UK's Economic and Social Research Council on human resources practices in global law firms in Italy, Germany and the UK. These were integrated with 22 additional interviews (15 in Rome and Milan plus 7 in London) with the majority of the key protagonist (senior and/or managing partners in the English and Italian firms discussed in our case study) involved in the history of English law firms in Italy as identified in our archival analysis. The entire interview dataset included practitioners (37 interviews) covering all positions in the organizational hierarchy of law firms; regulators and officials in professional associations (5), representative of law schools (3) and consultants and newspapers editors (4)

specializing in the Italian legal market. Interviews focused on: the respondents' account of and involvement in the historical events identified in our archival analysis; the strategies, activities and practices of international law firms in Italy; the differences and tensions between Anglo-Saxon and Italian understandings of and approaches to professionalism and legal practice; and the nature of the broader institutions framing the field of legal practice in Italy and its effects on the operations of global law firms. Interviews lasted between 30 and 90 minutes, were digitally recorded, fully transcribed, anonymised, coded and analyzed for recurrent themes. Ultimately, in line with established approaches (Greenwood et al, 2002; Greenwood and Suddaby, 2006) interviews were used to corroborate and validate our interpretation of the archival material. Our findings were presented to a number of our respondents to validate the accuracy of our historical reconstruction and analysis. In the analysis below we use extracts from archival data and quotations from interviewees (identified by a description of their professional position and a unique numerical identifier) to support the arguments made.

### **English Firms in Italy: A two stage history**

*Stage 1 – Entry and Consolidation:* Anglo-Saxon firms entered Italy in significant numbers in the early 1990s, spearheaded by Clifford Chance. Entry strategies were initially varied, yet most featured some sort of alliance with a local practice, usually under the form of an association agreement, in order to bypass local restrictions which existed up to the late 1990s on foreign firms and to overcome potential difficulties in establishing personal relationships with Italian clients. Thus, for instance, Clifford Chance entered the Italian market through a joint venture

with Grimaldi & Associati whilst Simmons & Simmons had a similar arrangement with Grippo Associati and Ashursts Morris Crisp with Negri Clementi. Such deals tended to be rather loose affairs with the local firms continuing to act in many ways as independent entities and retaining their own clients, names and identities. Yet the assumption was that such associations would lead to full integration sometime in the near future. Another even looser variation of this strategy, championed by Linklaters & Paines and CMS Cameron McKenna, operated on the basis of 'an exclusive alliance' that formed a cross referral network of independent high profile local practices. A different more integrated approach was followed by Freshfields and Allen & Overy with the former taking over Milan firm Lega Colucci Albertazzi & Arossa in 1996 (6 partners and 30 lawyers who became Freshfields employees) and the latter concluding a similar deal with Brosio, Casati and Associati in early 1997.

Confirming the story about Germany told by Morgan and Quack (2005; 2006), the arrival of the English firms undoubtedly reshaped the landscape of the Italian legal profession. In particular, the threat of Anglo-Saxon competition persuaded a historically individualist and factitious profession to reorganize and consolidate. For example, the perceived 'offensive launched in Italy by English firms' (Pye, 1999) persuaded the sparing remnants of the firm Cernelutti to put aside 30 years of dynastic squabbles and reconstitute in 1998 (albeit only temporarily) the family firm in order to compete with the new arrivals. More importantly, the threat of foreign competition explicitly lies behind the birth of the largest and most successful Italian Law Firm to date: Erede, Bonelli, Pappalardo. This was the result of a tripartite merger in 1999 between three established small practices to create what was at the time a new powerhouse with 22 partners and almost 100



lawyers. Ultimately, whilst in the mid 90s very few firms in Italy had more than 10-15 lawyers, in 2009 over 40 firms exceed a headcount of 50 (Top Legal, 2009).

The English firms that initially entered Italy in the 1990s, who were joined by a number of later entrants including Lovells, Eversheds, Norton Rose as well as a number of leading US practices, approached the millennium in a position of strength. Firms like Clifford Chance were able to recruit several lawyers from established local practices as a result of their alliances, thus boosting their capacity to practice Italian law (Jordan, 1999; Cahill, 2002; The Lawyer, 2001). At the turn of the millennium 80% of Clifford Chance lawyers were locally qualified (The Lawyer, 1999; Cahill, 2003a). This allowed firms to begin to expand beyond their traditional practices in structured finance and capital markets and engage in local corporate and employment matters. Consequently a number of large law firms began to expand their operations outside of Milan and Rome, for example in Padua or Turin, where a high proportion of Italian manufacturing business are located as part of a strategy to actively seek Italian corporate clients (Cahill, 2003b).

It was around the turn of the millennium that English global law firms in Italy also began to reorganize and integrate their offices in their international network according to the principles of the 'one firm' strategy. Looser forms of alliance and association were always viewed as preparatory moves towards full integration. This was born from the inherent limitation of cross referral networks which, as legal practice becomes transactional rather than client focused, are increasingly undermined by conflict of interest rules not to mention the reputational hazards of relying on local partners who may have different interests as well as service delivery methods and standards. Furthermore, and perhaps more importantly, in this period there was a growing

shift by English global law firms towards the imposition of a 'seamless service' strategy on all of their offices. This, as discussed in the literature review, was predicated on the assumption that clients increasingly required globally consistent services and service delivery methods modelled around an Anglo-Saxon understanding of professionalism and legal practice (Tyler, 1998). Indeed, in accordance to this 'one firm' strategy, Clifford Chance merged with its associate Grimaldi in 2000 following a similar deal in 1997 between Simmons & Simmons and Grippio Associati. Linklaters was, at the time, working on a two year timescale for a full merger with their local partner Gianni Origoni. Thus, English law firms approached the new millennium either having sealed their mergers or having a clear a roadmap towards this strategic objective. Such moves towards integration, however, marked the start of a turbulent period for the firms in question.

*Stage 2 - Institutional Tension, Collapse and Rescaling:* Following the mergers, attempts to implement the 'one firm' model made it quickly apparent that there were pronounced and deep-seated tensions between Anglo-Saxon and Italian approaches to legal practice. These tensions threatened to derail the implementation of the 'one firm' model and even potentially undermine the viability of English law firms' operations in Italy. Indeed, all of the previously described mergers quickly unravelled. Thus, for instance, Vittorio Grimaldi demerged from Clifford Chance taking with him almost 30 lawyers and most of the Rome office barely two years after the deal was concluded. The same period saw name partners Brosio and Casati and Lega and Colucci leave Allen and Overy and Freshfields respectively (Sutton, 2006; Griffiths, 2005). Meanwhile the scheduled deals between Linklaters and Gianni Origoni and Freshfields and Chiomenti never took place. Furthermore, whilst up to this period English firms had generally

been able to poach staff from local practices, the new millennium saw a partial reversal of this tendency as English firms began to lose partners, associates and sometimes whole teams, like Allen and Overy's employment group (McLeod-Roberts, 2009), or offices, such as Allen and Overy's Turin's office (Moshinsky, 2006) or Simmons & Simmons Padua office (Swift, 2010).

Such difficulties signalled the start of the end of English law firms' ambitions to develop a full service capability in the Italian market. From the early 2000s, and after the splits and defections outlined above, English firms retreated to their core practice areas around finance and capital markets work, where the benefits of scale, integration and international reach were most obvious and where the client relationships and legitimacy which could be realized through a merger with an Italian firm were less important. Incidentally these were the areas to be hit the most by the global financial crisis in 2008, meaning that English firms were affected more than their Italian peers who had their local corporate work to rely on. Today, English global law firms have established a stable presence in Italy around these core areas, although it is symbolic of their difficulties that most firms have shrunk in terms of headcount compared with the late 1990s/early 2000s as they are increasingly restricting their activities to the completion of the Italian 'leg' of global transactions through their Milan or Rome office. When English law firms arrived in Italy their strategic objective was to break in the top three of every local market in which they operated including Italy. Whilst in some European countries such as Germany and to a lesser degree France (Moshinsky, 2008) they succeeded in this objective, this has not been the case in Italy. The top echelons of the market are solidly in the hands Italian firms (the top five are Italian and these account for 42% of the market) and these firms monopolize the most lucrative deals and prestigious clients (See Table 2).

[Insert Table 2 here]

The experiences of English law firms in Italy and the rescaling of their strategic ambitions and operations are analyzed further in the remainder of the paper and testify, we contend, to the power of local institutions and how these can mediate and constrain the reproduction of global strategies in local contexts. Specifically we suggest that the problems encountered by English law firms in Italy in the early 2000s resulted from the tensions generated by the implementation of the ‘one firm’ model in an institutionally distant context. Understanding how these tensions emerged and unfolded, through specific clashes between home and host country *practices*, provides important insights into how an institutional perspective can better explain the organizational forms, strategies, successes and failures of GPSFs. More broadly, the analysis also illustrates the merits of a practice based approach to institutional duality.

### **Explaining the woes of English firms and their ‘one firm’ model in Italy: the contribution of institutional pillars**

This section interprets the events described above in light of the analytical and heuristic framework provided by Richard Scott’s (2005) three pillars approach. Table 3 fleshes out this approach by summarizing the key regulatory, normative and cultural-cognitive differences separating the English from the Italian legal professional field with particular emphasis on the way the structures associated with each field have effects on the practices of lawyers. As indicated by Table 3, a significant degree of institutional distance separates the English from the Italian context. Accordingly, this resulted in a range of deep-seated tensions when local practices erected on Italian institutions clashed with

practices associated with core elements of the one firm model; this model being constituted by practices derived from the English institutional context. It is these practice-related tensions, resulting from conditions of institutional duality, that explain the partial failure and scaling back of these firms' strategies in Italy. In the rest of this section of the paper we, therefore, provide illustrative examples (but by no means an exhaustive list) of particularly significant practice-related tensions and their links to the three pillars of institutions.

[Insert Table 3 here]

### *The Regulatory Pillar*

Regulatory influences are particularly significant in highly institutionalized fields such as the legal profession, where a detailed and mandatory framework governs practice. Following a well established approach to analysing professional occupations (Abel, 1988), we structure the analysis of the regulatory dimensions of professional institutions around consideration of two key sources of regulatory pressure, the *production of professional producers* (rules regulating qualification into a profession) and *the production by professional producers* (rules governing the conduct, behaviour and practice of qualified professionals).

### *Regulating the production of professional producers (how are professionals made?)*

Qualifying into the Italian legal profession, as indicated by Table 3, is a lengthier and more prescriptive process than in England and Wales. In Italy, unlike in England and Wales, the law degree is the only qualification route into the profession (art 33 comma 5 of the Italian constitution specifies qualification routes for entry into various professions). Consequently, the

fact that UK solicitors are not required to have a law degree, and indeed upwards of 40 per cent of lawyers recruited by English global law firms in London do not hold such a degree, is seen with suspicion in Italy. Thus, for example, one associate working for the Milan office of large global law firm openly questions the legitimacy of some of his superiors in London:

*‘Sometimes we find them difficult even strange [global firms’ home country practices]. For example....when we know and we see that sometimes in other jurisdictions you can have a university degree in matters different from law and then you take a short course and you can be a lawyer. We have some partners here who graduated at Math or Physics or something like that’ (54).*

Law degrees are strictly regulated by the Ministry of Education in Italy in conjunction with the universities. Degrees last five years (but often considerably longer due to the fact that students can choose when to take an exam and retake it multiple times if not satisfied with their mark), comprise over 25 final exams, and tend to be technical, theoretical and generalist in orientation; students focus on the mastery of the actual codes and procedures rather than on the solution of case studies and the development of employability skills as they increasingly do in the English context. The aim is to produce a broad and systemic understanding of the law as a science, including its sources, historical origins and of underlying principles. On completing a law degree, in Italy prospective lawyers undergo a two year practise period, working as a praticante with a qualified lawyer<sup>1</sup>. Praticanti are expected by their professional association to have a full working exposure to criminal, civil and administrative law (all of which are covered in their final

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<sup>1</sup> There is now the possibility to substitute a year of training practice with the attendance of a professional school regulated by the Italian professional association. However, this option is currently not widely taken.

state exam) and to attend at least 20 court proceedings per semester (thus confirming a bias towards contentious forms of legal practice). This extends the training period to at least seven years in total. Similar arrangements exist in England & Wales under the auspices of the Legal Practice Course (LPC). But, here, firms are heavily involved in the design and delivery of vocational training programmes. The City LPC for instance targets explicitly the reality of international corporate practice, whilst firms are increasingly developing their own in-house versions of the LPC, tweaking curricula to their needs and using as part of training their own internal forms, files, and precedents. Thus whilst the Italian training system is designed to produce generalist independent practitioners with a bias towards contentious work, the English system is designed to produce future employees of a specialist law firm (see Faulconbridge et al, 2012).

In Italy, the praticantato leads to the Esame di Qualificazione ed Abilitazione Forense (State exam) which in a country where there is an oversupply of lawyers is the final and perhaps most significant barrier to accessing the profession. In heavily subscribed jurisdictions such as Rome and Milan (where most international firms are based) failure rates regularly exceed 70%. The exam is a two year process (bringing the entire qualification process to a total of nine years and the average age of newly qualified lawyers to 31) comprising of a written and oral component. Applicants are expected to analyze both a criminal and civil case and to demonstrate mastery of the relevant court procedures. After passing the exam, Italian lawyers are then fully qualified to practice. Again this contrast with England & Wales where there is no final exam of any kind (the LPC is based on modular assessment). Here solicitors qualify on completion of a training contract with an existing firm and, indeed, must be employed by a firm for three years before

being allowed to practice independently. This again emphasizes how the training process in England increasingly acts as a precursor to employment in a particular firm rather than as preparation for general and independent practice, as is the case in Italy.

In the words of one of a partner in a leading international practice in Italy, *'the Italian educational system, with a few exceptions, is generally not suited for the purposes of transnational firms'* (91). Specifically, the system renders many of the practices connected with the 'one firm' model developed by English global law firms illegitimate and untenable. International firms, for instance, face difficulties in covering in their standard training programmes all aspects required by the praticantato, especially in connection to contentious work (the 20 court session per semester requirement). Indeed, in a comment echoed throughout our sample, one of our respondents, a former partner in leading English law firm in Italy, described existing qualification regime as *'impossible and unmanageable'* (94) for international firms. Furthermore, the demands, length and unpredictability of the exam process, together with its disconnection from the realities of transnational practice, somewhat reduces the ability of praticanti to participate fully in the work of their firms. A partner in the London office of magic circle firm, whilst reflecting on his time in Italy, illustrates the issues involved:

*'We had to allow them all [Italian trainees] very long periods of time off for their Bar exams and quite a few of them wouldn't pass the Bar exams first time around and would need to go back and do more. And we had to be constantly mindful of the requirements. I think there was also a requirement for them to go every week and spend a certain amount of time studying at the Bar school as well.....'* (103)



Reflecting on the consequences of this for the firm, the same partner noted the incompatibility of these regulatory requirements with the global models being deployed by the firm:

*‘What tended to happen was you’d have more people working on an average job in Italy than anywhere else in the world. So an average job that in London you might have a team of four people working on it, in Italy you might have a team of eight people working on it because you know some of them would be off here or there to do this or ....you would often have lots of different people appearing for short periods on the same transaction all needing to get up to speed with it’*

The net result is that English global law firms found it relatively difficult to take on, develop and deploy their own trainees in Italy in the same way as elsewhere in their office networks. And as a result, three fundamental components of the ‘one firm’ model (see Table 1) – integrated career paths starting from trainee stage, associated training programmes that develop firms specific skills, and the development of leveraged client service teams staffed by trainees and junior associates – are somewhat undermined by the institutional pressures associated with the Italian regulatory pillar.

#### *Regulating the production by professional producers (how do professionals practice?)*

In parallel with controlling access to their own ranks, professions have historically sought to exercise a high degree of control over the work, practice and behaviour of their members - thus

regulating of *the production by producers* (Abel, 1988). Again, such (self)regulatory systems are embedded in national institutions and therefore subject to significant geographical variation (Faulconbridge and Muzio, 2007; Ramirez, 2001). Most fundamental in rendering the ‘one firm’ model illegitimate in Italy is the way that the regulatory framework governing the production by producers implicitly and at times explicitly treats the individual practitioner as the key reference point as well as the norm for legal practice. Indeed, until the late 1990s and the impact of EU legislation, law firms were if not forbidden then severely curtailed and restricted by legislation which was originally designed under the fascist regime to exclude Jews from legal practice (L.1815 1939 – See Berlinguer, 2005). Such norms were carried through into the post-fascist regime under the new guise of their role in safeguarding the lawyer-client privilege and the independence (moral and economic) of the profession. In this context, unlike in England where law firms have become the main site of professional work and have developed distinctive corporate brands, professional regulations and deontological norms in Italy have sought to institutionalize an individual link between practitioner and client, with clients instructing individual practitioners rather than firms (Berlinguer, 2005).

Similar considerations apply to the regulation of salaried employment which, unlike in England where it constitutes the majority of the profession, is not allowed whether located in the in-house legal department of a corporation or within a law firm. In practice salaried lawyers do exist in Italy in increasing numbers but their existence has to be concealed behind the fiction of independent contractual arrangements whereby salaried lawyers are presented as self-employed consultants even if they have an exclusive relation with one firm. Such individuals operate in a regulatory vacuum outside of the legal protections available to employees whilst their employers

operate in a situation of continuous uncertainty which is not conducive to the increasingly sophisticated labour and HR policies developed by global firms.

In addition, the Italian regulatory regime controlling the production by producers constrains the strategies, practices and operations of global law firms in a number of other ways. For instance, strict regulations on the naming of firms which ban fantasy names (names not associated with a lawyer practicing in the firm) and don't allow firms to automatically retain their founding partners' names further institutionalize the primacy of the individual over the organizational brand. Thus one partner in an international firm in Italy joked:

*'by coincidence we have one partner with the same surname as our founding partner. Every time I see him I urge him to look after his health. One of our competitors still employs, after all these years, somebody related to the original name partner, they must keep him hibernated in a fridge' (91)*

Meanwhile, a partner in a London based firm, commenting on their merger with an Italian firm, noted:

*'Yes, firstly there were some Italian regulatory restrictions, for example the name, we had to keep [the name of the Italian Firm] in the name because of Italian Bar rules. That set it apart from other parts of the global firm because although it was a fully integrated part of the firm it didn't look like it because of that name. It took many years before we*

*could really major to the [Global Firm Name]. And even that has involved a degree of bending of the rules' (103)*

Other relevant regulatory constraints include: domiciliation requirements for contentious work, set minimum fees, restrictions on advertising as well as bans on referencing client names for marketing purposes (Berlinguer, 2008; Alpa, 2005). Taken together, these specificities of the Italian institutional setting led to significant tensions when global law firms sought to reproduce their 'one firm' model in Italy. Integrated career progression structures were undermined by the peculiar employment status of Italian lawyers whilst corporate billing, marketing and branding strategies clashed with the regulations described above. Thus, for instance, Freshfields and Allen & Overy were accused in the Italian parliament of undercutting fees by almost 30 percent, something which was against Italy's minimum fees regulations (Mizzi, 1999). Meanwhile, the Milan and Rome bar investigated a range of large commercial firms for disclosing transaction information, which whilst being standard marketing practice in London was forbidden by Italy's professional code of conduct (Collins, 2005).

### *The Normative Pillar*

The most significant impact on the operations of global law firms of normative pressures relates to their influence on client relationship values and norms. Client relations in Italy tend to be highly personal and long term, often lasting for several generations, something which mirrors the Italian focus on individual practice discussed above. In this context, a lawyer is expected to act as a trusted advisor and personal confidant, gaining an intimate knowledge of their client's business, personal circumstances and even their (more or less legal) secrets. Thus beyond

technical expertise, clients expect ‘total support, unscrupulousness, no misgivings which may alienate the client, an audacity in his or her public attitude’ (Gianaria and Mittone, 2007: 90) and the general feeling that their lawyer is a ‘consigliere’ (trusted counsel) who is part of a shared enterprise. Indeed to symbolize this, it is common practice for Italian lawyers to be invited to sit on the executive board of their clients.

In this context, as indicated in Table 3, the norm is for high end corporate lawyers to provide bespoke, personal and highly customized services which take into account not only the legal circumstances but also the preferences and tastes of the individual client; something which can only be born out of proximity and familiarity thanks to one-to-one relationships built over many years. Thus, Italian clients tend to be wary of organizational procedures and standardized services, expect constant access to a specific partner and value their individual relationship with a particular professional over a relationship with the firm. Indeed in this context, clients may even view size with suspicion and as an indicator of a more bureaucratic and impersonal experience (Micelotta, 2010).

Such norms and expectations relating to client relationships are radically different to those promoted by the ‘one firm’ strategy advanced by global law firms. Specifically, the practice group and account manager components of the ‘one firm’ model outlined in Table 1 meet high levels of institutional resistance, as do attempts to cultivate brand identity instead of individual reputations. This reflects the fact that the ‘one firm’ model is again based on the realities and assumptions of the English context where large firms, corporate brands, competitive tendering processes and short-term transactional relationships define the normative pillar of the legal

profession. This institutional distance between England and Italy has multiple consequences, with the most significant being that many of the practices deployed by English global law firms to develop client relationships were viewed as illegitimate and unprofessional in Italy. Thus, an English partner working in an Italian law firm commented on how Anglo-Saxon firms often committed *'faux-pax such as cold calling Italian clients without having being introduced'* (100). The illegitimacy of mainstream Anglo-Saxon business development practices is further conveyed by the following remarks by a former manager in the Milan office of an English law firm:

*'Throughout the world [major manufacturing MNC] is historically one of the main clients of this firm but it wasn't a client in Italy. This is because [major manufacturing MNC] had traditionally preferred another firm. I couldn't explain to London why we couldn't make a bid for [major manufacturing MNC]. It was forbidden for me because I couldn't go beyond the back of a competitor with whom we had a good relationship. We couldn't poach the client because we were colleagues with this other firm'* (36).

Conversely, as an Italian former partner in a global firm explains, the implementation of global blanket bans on lawyers taking positions on client executive boards as part of deontological best practices caused a lot of resentment with both practitioners and clients in Italy, where this was seen as legitimate professional practice and something associated with developing good client relationships:

*'In my opinion the programmatic statement think globally and act local was never realized...One of the rules at [Global Firm] was that lawyers were not allowed to sit on*

*the executive boards of their clients. Such a refusal is taken as a grave offense by Italian clients...they wouldn't understand it...' (94)*

Hence, English global law firms struggled to implement their business development strategies in Italy as they contradicted the logics associated with the local normative context. Indeed, existing research points out how Italian subsidiaries of MNCs often select local over global firms even in situations where headquarters may operate preferred global suppliers pools (Micelotta, 2010). Similarly, the leveraging of large numbers of junior lawyers as part of client transactions, which as per Tables 1 and 3 is a fundamental component of the business models of global firms, have been frustrated by the expectations that both Italian lawyers and clients have in terms of partner led advice and personal service.

### *The Cultural-cognitive pillar*

As indicated in Table 3, the mental schema and conceptual categories through which Italian lawyers make sense of and construct their professional world are different to those of English lawyers in a number of ways. These cultural-cognitive frames are generated by and in turn help to reproduce the regulatory and normative influences outlined above. There are several aspects of the Italian legal profession's cultural-cognitive pillar that have affected global law firms.

First, the sense-making templates of Italian lawyers are heavily influenced by the profession's doctrinal and philosophical foundations in the civil law tradition, with its emphasis on formal rationality, coherence and predictability (Faulconbridge et al, 2012). As Malatesta (2006) notes,

this dominance of formality and rationality is unsurprising given the central historical role of the legal profession in Italy in ‘state building’ processes and the drafting of the constitution. Within the civil law tradition, law is viewed as a self contained system of interlocking quasi-scientific pronouncements (indeed law is often referred to as a science in the Italian context): a ‘purely analytical, intellectual construct, a sealed system of logically interconnected propositions impermeable to the economic pressures of the business world’ (Osiel, 1990: 1037). Thus, emphasis is placed on the mastery of legal principles, and on the deductive application of legal rules to ascertain and advise on the legality of a given situation or transaction (Malatesta, 2006). The cultural-cognitive effects of juridical knowledge as embodied in the civil code on legal practice emerges clearly from the following comments from a junior associate in the Milan office of a global law firm:

*‘If you are in a securities department, or in banking and finance or in M&A department [in a transnational firm], it is just paper, paper, paper, and agreements that you take from precedents. How many times a day do you pick up the civil code and check and you learn and you study, I don’t pick it up many times! That’s not normal for an Italian lawyer’ (58)*

The quotation hints at the way the legal code provides the categories, intellectual tools and methodologies through which Italian lawyers understand the practice of law and construct their behaviour as professionals. The dominance of the code in professional life means lawyers understand their role to be that of a technician or even scientist of the law, whereby the hallmarks of excellence are esoteric knowledge, mastery of and faithfulness to the code, and the ability to



apply its neat pronouncements to the messiness of the human world so to craft technically perfect solutions. This lends itself to an eminently technical, quasi-scientific and reactive understanding of the practices associated with the production of legal advice.

Such a cultural-cognitive frame contrasts with the common law tradition of England and Wales where the doctrinal focus on the historically contingent decisions of case law (precedents) has always emphasized interpretation, flexibility, and the development of new legal instruments to support client interests, thus, colouring legal practice with a more pragmatic, innovative and entrepreneurial orientation (Flood, 2007). The starting point for English lawyers is the client's desired outcome with laws and precedents used, interpreted, stretched and re-written (referred to as private ordering, see Macaulay, 1963) to support the client's commercial objectives. Here lawyers understand their roles as that of value-adding service providers who should quickly and efficiently identify effective solutions based on past cases (Hanlon, 1999). Unsurprisingly, the 'one firm' model is very much designed to reproduce such a cultural-cognitive frame and associated practices throughout the world. However, the resultant emphasis in the 'one firm' model on service production practices that enable innovation, flexibility and expedience, primarily through the use of corporate best practices, standard templates and protocols, (Table 1, see also Brivot, 2011), is ill at ease with Italian legal culture and tradition. As one senior associate working for a global firm put it:

*"My experience is that lawyers of other jurisdictions are more efficient in terms of productivity. There is a cultural thing here whereby lawyers are not a service provider. But a kind of gurus of mastering the laws, so they can take the time they like" (53)*

Secondly, cultural-cognitive differences are also born out of the way the Italian legal profession continues to be defined by a collegial and autonomous culture (Lazega, 2001; Raelin, 1991), predicated around the norms of the independent practitioner, whereas English lawyers over the past twenty years have shifted decisively towards an organizational professionalism model (Faulconbridge and Muzio, 2008; Reed, 1996) that promotes cultures of organizational loyalty and identity. Specifically, the Italian legal profession is an extreme example of collegial/autonomous professionalism (Micelotta, 2010), whilst the English legal profession has probably travelled the furthest down the path towards organizational professionalism (Faulconbridge and Muzio, 2008). As a result, the Italian cultural-cognitive frame continues to promote, when compared to the English one, a decisively individualist and autonomous streak in legal practice; thus, in the words of Vittorio Tadei, a partner in top three law firm Chiomenti, *‘Italians are more individualistic in many things, including practicing law’* (quoted in Sutton, 2005: 69). In an example of how the three pillars are interlinked and mutually reinforcing, this culture is reproduced through the normative discourses of independence, generalist focus and individualism propagated by the professional association in its internal and external representations whilst it is also embedded in the qualification processes and in a regulatory system which both assume and indeed institutionalize individual and autonomous practice as the professional ‘norm’ (Alpa, 2005). The resultant superstar lawyer culture that this produces emerges very clearly in the quote below from another associate working for a global law firm:

*In Italy in the Italian firms, we have the myth of the great sole practitioner, the great lawyer, the One. Everyone I would say dreams of being the Man, the real lawyer, the Great Lawyer...there are the great egos in the firm and they don't act as a team – everyone looks at his own interests (54)*

Such a culture has a significant effect on the mental maps that define how the practice of law is understood and managed. For instance, our analysis, as well as previous studies (Flood, 1995), reveals a cultural expectation of and preference for individualized forms of practice together with an intolerance towards more centralized and procedural forms of work. Thus, the majority of Italian lawyers are in sole practice, whilst historically firms were generally not conceived as institutions designed to last but as temporary workshops set up around the requirements of a great master. As one such master, Vittorio Grimaldi, candidly put it, *'I don't have any ambitions to build an eternal law firm. I couldn't care less whether my firm continues into the next new century'* (quoted in Pawsey, 2003: 71). Indeed, the honesty of Vittorio Grimaldi became clear in 2011 when, following a round of defections, his firm, historically one of the first large Italian law firms, dissolved and ceased to exist (Harris, 2011).

For English global law firms, the individualist culture associated with this craftsmanship approach to legal practice meant that their attempts as part of the 'one firm' model to rationalize and standardize the advice production process were met with significant resistance. Standard templates, knowledge management systems and centralized routines and processes (see Table 1) were resisted and viewed as illegitimate as they contradict taken for granted ways of working built around the autonomy and the ad-hoc preferences of individual practitioners. In other words, the impression in Italy was that *'UK firms are too hierarchical and at times lawyers feel they are employees rather than partners. Italian lawyers are free-spirited prima donnas who are entrepreneurial. They do not like being told what to do - especially attending numerous meetings and compiling reports'* (Partner in Italian Law firm – quoted in Ruckin, 2007). The following vignette from a partner working for a global firm in Italy illustrates these issues very effectively:

*'There was a lot of Micro Management. I will give you an extreme example but there are many more. It was Christmas and I received an email from the European Managing Partner 'Alessandro [changed name], as you know, Christmas is approaching. You should of course organize a party. You should provide beverages but no alcohol. It should be in the afternoon but not too late – around 5 pm. You should thank the staff, starting from the support staff and then our associates but you shouldn't mention the partners' In other words they were spelling out everything for me....I replied 'Have you gone mad'. I have set up this practice and organized loads of Christmas parties. I will address my staff as I see fit. Because I created this office and kept it together over the years...they are my staff'. How can someone send an email like this? If you send such an email you must think I am an imbecile that needs to be told everything...when to get up in the morning, whether I should brush my teeth before going to the toilet and so on.....' (92)*

Thus, this quotation reveals how what in the English context may have been interpreted as guidance about how to adhere to corporate best practices and ensure consistent treatment of staff - something English organizational professionals (Faulconbridge and Muzio, 2008) have become increasingly used to - in the Italian context generated a major tension point because of the illegitimacy afforded by Italian institutions to such practices.

Compounding the difficulties faced by the English 'one firm' model and further reflecting the individualism promoted by the regulatory and normative pillars, remuneration cultures in Italian law firms disproportionately favour a small coterie of incumbent partners at the expense of junior partners and associates. Remuneration tends to operate on an 'eat what you kill' basis (Galanter and Palay, 1991), tying pay to individual billing levels and 'rain making' (client relationship building). This

reflects the norms of client relations described above and further incentivizes partners to keep a tight personal control over their client base. Whilst such cultures are not unique to Italy, they do contrast starkly with the 'one firm' model typical of English law firms. In this model, not only is remuneration in many cases based on a lockstep model which rewards experience and years of service with the firm (i.e., organization commitment and loyalty), rather than revenue generation, but the widening of the partnership and the minimization of inequality through rapid opportunities for career progression is also encouraged (see Table 1). These differences are a reflection of the greater importance of organizational models of professionalism within English firms, and meant that significant difficulties were faced when, as part of the one firm model, such remuneration practices were implemented in Italy.

Thus, for instance, large Italian law firms tended to operate wide equity spreads (earning differential between top and bottom earning partners), approaching ratios of 8:1 against the 2:1 or 2.5:1 usually adopted by English firms. In this context, fitting the expectations of Italian superstar partners into the firms' global pay lock-step was always going to be complicated. For instance, Vittorio Grimaldi was on a salary of £3m, three times Clifford Chance's top of equity rate, when he entered merger negotiations. The solution was to award the Italian partners 'super points' on the firm's lock step scale; yet this immediately undermined the one firm policy and led to the paradoxical situation of having partners in a peripheral office earning multiples of their superiors at headquarters. Indeed, when Italian based remunerations were disclosed, this caused considerable dissent amongst partners working in the London office (Cahill and Jordan, 2003). This partner in a leading Italian firm summarizes the tensions surrounding this issue very cogently:

*'Alliances have failed in the past because the income of top Italian lawyers is much higher than the top rates in the lockstep. The lockstep in the Magic Circle goes up to £1m – perhaps a little more. But the personal income of the top lawyers in Italy ranges between €10m and €20m. If you want to get into this market, you need successful lawyers, and if you want successful lawyers, you can't cap them with a lockstep'* (quoted in Sutton, 2006: 74)

## **Discussion and Conclusions**

The analysis above provides concrete examples of the tensions that emerged when core components of the one firm model were imported into the Italian market. This reflects the fact that the 'one firm' model is drawn from the home-country of the firms in question and, as such, is a bundle of practices which represent legitimate ways of organizing law firms in the English institutional context. Attempts at implementing the 'one firm' model thus created conditions of institutional illegitimacy in Italy which led to the difficulties – demergers, lawyer exodus, clashes with local regulators etc – outlined earlier in the paper.

This analysis makes a number of contributions to the study of professional services firms and multinational corporations more broadly. Firstly, we address the economic bias which colours much of the existing literature on GPSFs. Our analysis goes beyond the role of economic tensions between offices in undermining the operation of global structures (international practice groups), strategies (one firm model), and practices (multinational staffing of projects). Whilst some existing research introduces the importance of cultural and political considerations into debates about GPSFS (Barratt et al, 2005; Morgan and Quack, 2005), our analysis goes much

further by developing a rich and empirically grounded account of how local institutions mediate the reproduction of professional practices and, in our empirical case, undermine the very concept of the 'one firm' model. This type of institutionally based account has been underdeveloped within the study of professional services firms and their internationalization; something which is rather surprising given the high degree of local embeddedness which characterizes professional work. This paper, therefore, addresses a significant gap in the existing literature. In doing so we also take a different perspective from those (Scott, 2008; Arnold, 2005; Morgan and Quack, 2005; 2006, Suddaby et al, 2007) who emphasizes the ability of professionals to drive processes of institutional change and, conversely, we show how the robustness and stability of institutional contexts can affect and constrain the agency of GPSFs.

Secondly, and perhaps more importantly, we make a broader contribution to the study of MNCs by developing a practice-level institutional analysis of internationalization strategies. We do so through the application of Richard Scott's (2005) three pillars of institutions. Whilst this theoretical approach is not new to the field of international business, as illustrated by the institutional duality perspective (Kostova, 1999; Kostova and Roth, 2002; Xu and Shenkar, 2002; Yiu, 2002), existing work in this tradition has tended to operate at a rather abstract level and failed to develop more grounded, micro-scale and multifaceted accounts of the various ways in which local institutions interact with MNCs to mediate their strategies (Bousseebaa et al, 2012). The preference in existing work for quantitative methodologies and the development of aggregate country scores to measure institutional distance often leads authors to lose sight of the place- and time- specificity of the processes they describe, of the wider context in which local and global interactions take place, and perhaps most importantly of the actual practices and

micro-processes through which local institutional pressures are carried and exercised (Thornton et al. 2012). As we have demonstrated through the analysis above, tensions between home and host country institutions and the affects these have on the operations of MNCs, such as the GPSFs discussed in this paper, cannot be easily captured without considering the practices local institutions produce and how these relate to specific aspects of the global models developed by MNCs. To this effect, connecting to wider calls (Greenwood et al, 2010; Lounsbury, 2008; Lounsbury et al, 2007; Thornton, 2004; Thornton et al, 2012) for a practice turn in institutional analysis, we have focussed on the micro foundations of institutional difference; something exemplified by the unveiling of the tensions that emerge when the (home country inspired) best practices which MNCs seek to reproduce come into contact with distant host country institutions and their associated practices. Ultimately this practice-level analysis provides a fuller and more convincing account of institutional duality, its causes, and effects on MNCs.

Specifically, in the case of GPSFs, a practice-level analysis of institutional effects is vital because the ‘one firm’ model is a bundle of practices (i.e., lock step remuneration, global profit pools, high leverage ratios, compressed remuneration, transactional client relations, emphasis on standardization, strong brands, etc) tied to particular logics of action and shaped by the interlocking influences of the regulatory, normative and cultural-cognitive pillars of a specific home-country institutional context. When exported to a host jurisdiction, these practices lack legitimacy because they deviate from and clash with a range of local logics and associated practices (eat what you kill remuneration, more limited leverage ratios, dispersed remuneration, personalized client relationships, emphasis on personal discretion) embedded in a distant institutional context with its own specific regulatory, normative and cognitive dimensions.



Figure 1 summarizes this situation and the challenges it generates for the GPSFs in question. This reveals how our approach allows us to make strong connections between institutional effects at the level of the three pillars, their underpinning logics and the practices they inspire and through which they are enacted. It also allows us to better understand practice-variation occurs across space (Lounsbury, 2008) and the range of multi-dimensional institutional challenges faced by MNCs.

[Insert Figure 1]

This practice-level approach to the study of institutional duality promoted here opens up a rich agenda for future research. Whilst variation over time and space is an inherent assumption in all institutional work, too often these variations are not explicitly analyzed through comparative work (for an exception see Lounsbury, 2007). This paper contributes to this agenda through the analysis of the internationalization of English law firms in Italy – two contexts separated by significant institutional distance. An obvious starting point, then, would be to carry out similar comparative research in a range of different occupational and geographical contexts, including ones characterized by more limited institutional distance. Particularly fruitful here would be multi comparative studies looking at how the same home country practices (such as the one firm model) are introduced in different host county jurisdictions (i.e. Germany and France) and the different tensions and outcomes that such processes generate. Whilst other factors, such as the entry strategies deployed and the power relations between headquarters and the subsidiary offices in question (Boussebaa et al, 2012), are also relevant, the practice-level institutional analysis developed here should act as a starting point for explaining why the internationalization strategies of GPSFs and MNCs more generally are met by

different challenges, levels of resistance and ultimately outcomes in the different jurisdictions in which they operate.

Secondly, as indicated by our study, despite the effects of institutional duality, GPFs and MNCs more broadly do often succeed in operating within institutionally distant jurisdictions thanks to their ability to develop specific strategic responses to local institutional pressures (Oliver, 1991). Such responses may include processes of institutional entrepreneurship (Greenwood et al, 2002; Greenwood and Suddaby, 2006) as GPSFs/MNCs seek to challenge host country institutions so as to minimize distance and duality (Philips and Tracey, 2009; Kostova et al, 2008). GPSFs hold peripheral positions in host country contexts and, therefore, have the ‘awareness of alternatives, openness to alternatives, and a motivation to change’ (Greenwood and Suddaby, 2006: 29) as well as the resources (Suddaby et al, 2007; Arnold, 2005) to overcome embedded agency and challenge the taken-for-grantedness of local institutions. Our analysis revealed examples (the success by ASLA in changing training requirements for trainee solicitors by substituting a number of court appearances with simulations) of attempts at such institutional entrepreneurship, but further research in this area is needed. Similarly, more research is required on the processes of translation (Czarniawska and Sévon, 2005; Morris and Lancaster, 2006) deployed by GPFS as they modify some of their global practices to make them legitimate and workable in a local context. The kind of practice-level analysis developed here provides a way to facilitate such research by drawing attention to the distinct but interrelated levels - regulatory (structures), normative (values) and cultural-cognitive (frames) – at which successful institutional entrepreneurship and translation need to operate. Furthermore, it allows us to understand the need for place specificity in the translation processes to render a particular practice or model legitimate in a specific host country context.

Relatedly, this paper connects to growing debates on institutional pluralism (Battilana and Dorado, 2010) or complexity (Greenwood et al, 2011) since, despite the deployment of institutional change strategies, MNCs will have to find ways to reconcile the demands, tensions and conflicts arising from the contrasting institutional logics which pervade them. Whilst the literature provides several examples of competing logics and their effects on organizations (Reay and Hinings, 2005; Zilber, 2002), MNCS are particularly significant case studies as through their exposure to home and host country pressures they are embedded in a high degree of spatial complexity. Our analysis therefore advocates the study of MNCs through the lens of institutional complexity, with more research being required on how distinctive geographic logics combine and interact with other types of institutional logics, how spatial complexity may produce conditions of organizational hybridity, and how firms seek to manage the challenges associated with complexity and pluralism in their institutional environments. Here the role of HRM and identity work techniques in producing individuals which are able to internalize and enact competing logics seems to be of particular importance.

Finally, another important direction for further research in the area would be to pay more attention to the role of power dynamics beneath conditions of institutional duality– something which responds to the growing criticisms of institutional theory as a power free zone (Clegg, 2010; Suddaby et al, 2007; Malsch and Grendon, 2014). Whilst, as argued in this paper, institutional factors are essential in mediating the reproduction of home country practices in host jurisdictions, such processes are likely to be affected by power considerations such as the nature of headquarter subsidiary relationships and, more generally, by any power asymmetries between the home and host country in question. The recent use of Post-Colonial theory to study MNCs and their internationalization (Frenkel and Shenhav, 2003; Boussebaa et al, 2012) is one way of bringing back power into the equation - the key idea here being that host and home countries are not simply different institutional sites but occupy different positions within the global economy and its hierarchies of power. Specifically in the case of, GPSFs this

relates to the way Anglo-Saxon economies have been at the forefront of processes of globalization and have been the birthplace of large commercially oriented GPSFs. Conversely, continental societies have occupied a more peripheral role in professional services markets and are still attached to more traditional models and understandings of professional practice. In this context, the commitment of English firms to exporting their one firm model could be viewed as a colonization project as they impose their practices and ways of doing business in less developed jurisdictions. This process is facilitated by the different position that countries occupy in the global professional services market and in the world economic order more generally. Our case study looked at what was a sizeable but under-developed (in terms of professional services) and peripheral market (Italy). It would therefore also be interesting to study similar dynamics in contexts characterized by different power relationships to see if the strategic significance of a market (Germany in Europe or China in the Far East) or the presence of a more established professional services firm sector can lead internationalizing firms to be more flexible and responsive to local conditions when exporting their models and practices.

In sum, we suggest that more detailed empirical scrutiny can be built on the analytical framework presented here in order to develop a more nuanced and multifaceted analysis of institutional duality and its effects on the activities of GPSFs and MNCs more widely.

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**Table 1 - The One Firm Model**

	Feature	Function
<b>Management and structure</b>	Executive international management committee	Centralized control over issues such as strategy, organizational structure, and the firm-wide practices which have to be implemented by local offices
	Global practice group structures	Lawyers become part of a global practice group, as well as an office, allowing them to be used as a resource on projects worldwide. Lawyers are managed according to the objectives of their global practice group
	Global account managers and client teams	Key clients identified and managed by global account managers to ensure global consistency in service
<b>Advice production practices</b>	Development of best practices and standardization of service delivery methods	A suite of best practices is developed centrally and implemented in all offices, covering issues such as recruitment, appraisal, client relationship management etc
	Standard templates and protocols	The process of producing legal advice is routinized through common templates and procedures designed to reduce time and cost
	Firm wide deontological codes	Development of firm-specific ethical standards, such as rules addressing conflicts of interest, and professional practice standards. These often exceed the exceed local regulatory requirements and apply to all offices
	Development of strong brand identity	The firm and its name prioritized over the reputation of individuals. All work branded with the firm name

		not the individual delivering the advice.
	Centralized Knowledge Management and IT Systems	Computer-based systems used to share knowledge and reduce the need for extensive analytical work when producing legal advice (economies of re-use)
	Globally integrated training programmes (Global academies)	A series of firm-wide programmes that all lawyers must complete. Often delivered through worldwide events involving lawyers from several jurisdictions.
	Extensive global secondments	Lawyers encouraged to work outside of their home-jurisdiction in order to more fully integrate into the firm's culture.
<b>Profit allocation and remuneration logics</b>	Integrated profit pools	All profits pooled together with partners takings determined as a percentage of global rather than local profits
	Global 'Lock –Step' and firm wide remuneration policy	All lawyers' pay determined by a consistent worldwide model, meaning years of service and experience not location or any other variable determines pay
	Integrated career progression structures	Clear path from trainee to partner that all lawyers follow. Global assessment criteria, centres and committees to assess progression

Source: interview data; Brock, 2006; Lowendahl, 2005; Segal-Horn and Dean, 2009.

**Table 2 – Top 10 Law Firms in Italy in 2009**

Firm	Turnover 2009 (€M)	PEP (€M)	Equity Partners	Salaried Partners	Associates	Total Lawyers
Bonelli Erede Pappalardo	130	2.4	37	19	141	197
Chiomenti	123	1.5	52		225	277
Gianni Origoni	94	1.3	37	20	222	279
Pirola Pennuto Zei	88	1.37	32	67	270	370
NCTM	70	0.97	43	50	150	243
Freshfields	57.5	0.92	19		70	89
Clifford Chance	46	0.79	17		84	101
Allen and Overy	42	0.91	16		67	83
Cleary Gottlieb	40	1.7	11		50	61
Legance	40	0.96	26		108	134

*Source: Top Legal 2010*



**Table 3 – The Italian and English Legal Professions – An institutional comparison detailing logics and practices (highlighted in italics in the table) associated with the three pillars**

Institutional Context		Significant elements of institutional structures in England and Wales and <i>influence on practice</i>	Significant elements of institutional structures in Italy and <i>influence on practice</i>
<b>Regulatory Pillar</b>	The Production of Producers (qualifying as a lawyer)	Light-touch regulation with low levels of state or professional association involvement; <i>Shorter duration (lawyers qualify in their mid 20s) and less prescriptive process (including multiple entry routes that mean a law degree is not the only means of qualification);</i> Stipulated pedagogic principles focus on legal reasoning, and transferable skills; Focus on producing specialized employees <i>Training contract as the key entry barrier</i>	Highly regulated with high levels of state involvement; <i>Longer duration (lawyers qualify in their late 20s – early 30s) and more prescriptive process (single entry route centred on law degree);</i> Stipulated pedagogic principles focus on theoretical and technical components of legal doctrine; Focus on producing independent professionals <i>State exam as the key entry barrier</i>

	The Production by Producers (how legal advice is delivered)	<p>Increasingly de-regulated with multiple organizational forms allowed (<i>introduction of multidisciplinary practices and outside ownership - 'alternative business structures'</i>)</p> <p>European Commission report (Paterson et al, 2003) classified the British legal profession as medium regulated with a regulatory score of 4.</p>	<p>Highly regulated with significant restrictions on organizational structures as well as employment and commercial practices, including <i>ban on salaried employment and restriction to professional partnership as the only organizational form allowed.</i></p> <p>European Commission report (Paterson et al, 2003) classified the Italian legal profession as highly regulated with 6.4.</p>
<b>Normative Pillar</b>	Client Relationships	<p>Transactional and organizational; Lawyers as providers of technical solutions to specific business needs</p> <p><i>Reliance on competitive tendering, high focus on cost and review of value for money. Heavy investment by law firms in marketing and business development</i></p>	<p>Long term and individual; Lawyers as trusted advisors/confidants;</p> <p><i>Intimate involvement in client business and personal affairs (through for instance taking positions on company boards and taking on more mundane work to build/maintain relationships)</i></p>
	Mode of production	Centred around large organizations with multiple	Centred around small independent producers - law firms a new and

		<p>practice groups - law firms are well established; <i>high levels of individual specialization in one area of legal practice, ;</i></p> <p><i>Lawyers expect to practice as part of a integrated multidisciplinary team; emphasis on firm brand, teamwork and knowledge management.</i></p> <p><i>Organizational processes seen as key to producing high quality advice</i></p>	<p>limited reality; <i>Lower levels of specialization, emphasis on star practitioners;</i></p> <p><i>individual autonomy and discretion seen as key to producing high quality advice</i></p> <p>more emphasis on the provision of <i>bespoke advice based on knowledge of personal preferences/circumstances</i></p>
<b>Cultural – cognitive Pillar</b>	Juridical Doctrine	<p>Common law emphasizes creativity; <i>more proactive stance to legal advice; use of precedents and firm specific templates to create solutions for client problems;</i></p>	<p>Civil law emphasizes the production of technical solutions through the faithful application of the principles enshrined in the civil code; <i>more technical and reactive stance to legal advice; more limited routinization/standardization in processes and practices</i></p>
	Tolerance of inequality	<p>Low.</p> <p><i>Compressed remuneration levels as a result of lockstep pay systems; rapid career progression paths (up-or-out).</i></p>	<p>High</p> <p><i>Paternalistic governance with dispersed remuneration levels as a result of eat what you kill pay systems; access to partnership equity highly restricted and usually concentrated in hands of founding</i></p>

			<i>partners and heirs</i> <i>Slower career progression paths</i>
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*Source:* archive and interview data